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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

National Cable Television Association

Daniel L. Brenner  
Vice President for Law &  
Regulatory Policy

1724 Massachusetts Avenue, Northwest  
Washington, D.C. 20036-1969  
202 775-3664 Fax: 202 775-3603

February 17, 1994

Delivered By Hand

Mr. William Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Re: Ex Parte Meetings Regarding Rate Regulation: MM Docket #92-266

Dear Mr. Caton:

On Thursday, February 10, 1994, the following individuals, along with myself, met with the following offices to discuss rate regulation. Attached are copies of the documents that were left behind in the offices.

• Individuals attending the meetings:

- Gerald Hassell, Bank of New York
- Phyllis Riggins, NationsBank
- Ian Crowe, Toronto Dominion

• Offices and individuals visited:

Office of Chairman Reed E. Hundt:

- Blair Levin, Chief of Staff
- Jim Olson, Chief, Competition Branch, Cable Television Bureau

Office of Commissioner James H. Quello:

- Brian Fontes, Senior Advisor
- Maureen O'Connell, Legal Advisor

Office of Commissioner Andrew C. Barrett:

- James Coltharp, Mass Media Advisor
- Lisa Smith, Legal Advisor

Please file this letter and the attachments in the appropriate docket.

Respectfully submitted,

  
Daniel L. Brenner

DLB:tkb  
Attachments

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Consolidated Cash Flow Statement

Page 9  
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At: 3:19 PM

		Projected Fiscal Years Ended December 31,								
		1994	1995	1996	1997	1998	1999	2000	2001	2002
<i>Cash will be Provided By:</i>										
Earnings Before Taxes		6,237	7,072	8,909	19,857	23,426	26,051	27,505	29,360	31,191
Depreciation and Amortization		10,433	10,825	11,200	3,212	3,049	3,835	4,259	4,915	5,300
(Increase) Decrease In Working Capital		0	0	0	0	0	0	0	0	0
Cash Provided By Operations		16,670	17,897	20,205	23,068	26,475	29,887	31,764	34,275	36,500
<i>Cash will be Used For:</i>										
Maint. Capex		4,383	4,579	4,835	5,288	5,654	6,065	6,403	6,725	7,004
Preferred/Common Dividends		0	0	0	0	0	0	0	0	0
Cash Used For Operations		4,383	4,579	4,835	5,288	5,654	6,065	6,403	6,725	7,004
<b>Cash Flow Available for Debt Amortization</b>		<b>12,307</b>	<b>13,318</b>	<b>15,370</b>	<b>17,782</b>	<b>20,821</b>	<b>23,821</b>	<b>25,360</b>	<b>27,550</b>	<b>29,500</b>
Debt Amortization:										
Senior Bank Debt		12,000	17,600	22,400	28,800	36,800	35,500	0	0	0
Private Placement		0	0	0	0	0	0	0	0	0
Other Senior Debt		109	78	10	200	18	19	16	0	0
Subordinated Debt		0	0	0	0	0	0	0	0	0
Notes Payable to Former L.P.s										
In Excess of Right of Offset		0	0	0	243	0	0	0	0	0
Subject to Right of Offset		0	0	0	4,824	0	0	0	0	0
Notes Receivable from Former L.P.s		0	0	0	(4,824)	0	0	0	0	0
Net to (From) L.P.s		0	0	0	243	0	0	0	0	0
Total Debt Amortization		12,109	17,678	22,410	29,303	36,818	35,519	16	0	0
<b>Free Cash Flow</b>		<b>108</b>	<b>-4,360</b>	<b>-7,040</b>	<b>-11,520</b>	<b>-15,997</b>	<b>-11,898</b>	<b>25,344</b>	<b>27,550</b>	<b>29,500</b>
Cash Flow Recapture	% of Free Cash Flow	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Amount	0	0	0	0	0	0	0	0	0
Cash - Initial Balance		-752	-554	-4,914	-11,900	-23,480	-39,477	-51,374	-26,030	1,520
Plus/(Less) Net Cash Flow from Operations		198	-4,360	-7,040	-11,520	-15,997	-11,898	25,344	27,550	29,500
Ending Cash		-554	-4,914	-11,900	-23,480	-39,477	-51,374	-26,030	1,520	31,000
Distributions to Owners		0	0	0	0	0	0	0	0	0
<b>Total Management Fees &amp; Distributions</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Total Distributions 1993 - 1995

\$2,011

# **History of Banks and Cable Industry**

- **Anywhere from 50 to 80% of cable industry's financing has come from bank debt**
- **Based on limited number of variables and predictability of cash flow, few lenders have experienced problems with cable portfolios**
- **Write-offs have been nominal in over 20 years of bank lending to cable**
- **Banks have historically financed most of the plant construction to pass over 90% of U.S. lot lines with cable, and to upgrade that plant to deliver more services**

# **Characteristics of Bank Debt**

- **Amortizes relatively quickly (avg. life 4.5 to 6.5 years)**
- **Covenant compliance measured directly by cash flow**
- **Oversight by government agencies, at least annually, with mandated writedowns or reserves, based on potential or defined weaknesses**
- **Volume of bank debt requires that many smaller banks, without dedicated resources, be kept comfortable with cable**

# **Economics of the Cable Industry**

- **Many expenses are fixed**
- **Variable expenses tend to vary directly with *subscribers*, rather than revenues on basic and expanded basic cable services**
- **Therefore, basic rate rollbacks drop disproportionately to the bottom line (cash flow)**

# **Implications of Additional Basic Rate Rollbacks**

- **Small to medium operators with no funding other than bank debt may be cut off due to regulatory pressures or shutdown of bank syndication market**
- **Debt to cash flow (leverage) and cash flow to debt service coverage covenant defaults**
  - **Covenants are generally set within 10% of cash flow projections**
  - **Cash flow is defined as most recent quarter times four, so rollbacks have immediate annualized impact**
  - **Many coverage tests are today's cash flow to next 12 months' debt service**

# **Implications of Additional Basic Rate Rollbacks**

- **Reductions in capital expenditures to upgrade, extend or rebuild plant**
  - **Could be necessary to amortize bank debt as originally scheduled**
  - **Could cause problems with franchising authorities, due to upgrade requirements agreed to based on information available at the time**
  - **Limits ability to compete with DBS and telcos**
  - **Limits ability to develop non-regulated revenue streams**

# **Implications of Additional Basic Rate Rollbacks**

- **Uncertainty causes disruption of capital markets for cable industry**
- **Superior, exportable technology may move from the hands of entrepreneurs who developed it**
- **Forced consolidation**
  - **Smaller companies may feel forced to sell out to larger ones or to telcos**
  - **Larger companies may feel forced to sell out to better financed telcos**